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DIRECTOR'S COPY

NSC BRIEFING

~~CONFIDENTIAL~~ 19 October 1959

TAPLINE

- I. American-owned Trans Arabian Pipeline Company (TAPLINE) carrying Saudi Arabian oil to Mediterranean may be shut down after 31 October. Negotiations with the UAR about revenue have reached an impasse, and company officials state flatly they cannot afford to give in to Arab demands. Crisis stems from three separate but closely related disputes.
- II. One dispute centers around demands by Jordan, Lebanon and UAR for sharply increased transit payments by TAPLINE. TAPLINE officials willing to increase payments substantially but state that annual payments to UAR, Jordan, Lebanon, and Saudi Arabia under formula proposed by UAR would exceed the company's annual profits.
  - A. UAR issued ultimatum that TAPLINE meet demands by 9 September, or UAR would decree tax equivalent to its demands.
  - B. TAPLINE holds UAR action contrary to agreements with Syrian region which provide for arbitration of disputes. Company decided ignore UAR decree and continue operating until shutdown by direct UAR action.
- III. TAPLINE's executives argue that settlement of ARAMCO dispute with Saudi Arabia is directly related to TAPLINE's ability to pay higher fees: UAR, after approach by Ambassador Hare, has given TAPLINE until end of October to settle with Saudis.

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- A. TAPLINE and ARAMCO are separate Delaware corporations but owned in same proportion by same parent companies. (Standard Oil Company (New Jersey), 30 percent; Standard Oil Company of California, 30 percent; Texaco, 30 percent; and Secony Mobil Oil Company, 10 percent).
- IV. ARAMCO's dispute with Saudi Arabia revolves around so-called "Sidon Claim" whereby Saudi government claims ARAMCO has, since 1950, diverted profits to TAPLINE and ARAMCO owners which should have been shared 50/50 with Saudi government. Saudi Arabia says ARAMCO now owns \$185,000,000.
- A. Saudi government actually wants more than increased revenues. It wants greater control over ARAMCO operations. Specifically Jidda wants:
1. ARAMCO to reorganize as a Saudi company in which parent companies would have only a financial interest and not control policy as at present.
  2. ARAMCO to "integrate," that is, to produce, refine and market oil; at present, production is about only operation. Profits would then be divided on operations down to gas pump level throughout the world.
  3. Profit-sharing ratio should be changed from 50/50 to 75-80 percent in favor of Saudi government.
- B. Saudis show no willingness to compromise and no concern that TAPLINE might be forced to shut down.
- V. ARAMCO and TAPLINE offered to settle Sidon dispute for \$45,000,000 not because they recognize validity of Saudi claim but to settle other outstanding issues.

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A. The main issue dates from 1947 when TAPLINE agreed to begin share profits with Saudi government in July 1962 on basis best terms prevailing in Middle East at that time. Company feels it has to meet obligation. Trouble is that economic conditions have changed and that, with the way deals are moving now, Saudis will by 1962 be able to claim virtually all TAPLINE's profits. TAPLINE trying to get Saudi's to agree to rewrite of this 1947 deal in return for \$45,000,000 now.

1. When Saudis stood firm, ARAMCO and TAPLINE "withdrew" \$45,000,000 offer.

VI. Earlier hopes that Crown Prince Faysal, who has backed Abdullah Tariki, the country's Director of Petroleum Affairs and chief promoter of Sidon Claim, would modify his adamant position have been dashed.

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VIII. No evidence Nasir willing to compromise but might agree to some further postponement.

- A. Nasir's motivation primarily economic. \$7,000,000 of anticipated increase in transit fees already earmarked for Syrian budget.
- B. Pressure for additional postponement tied to World Bank loan for Suez Canal might be counterproductive since apparent Nasir already views existing strings on loan as steep price.
- C. UAR would actually profit from TAPLINE shutdown. Most of oil would be diverted through Suez Canal at profit of some \$17,000,000 in Canal dues. Syria currently gets \$1,250,000 annually in pipeline fees.

IX. A shutdown of TAPLINE would not materially affect oil situation in the West, since arrangements could be made easily for supplies from alternate sources.

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